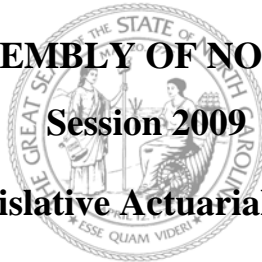


# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

## Legislative Actuarial Note

### HEALTH BENEFITS

**BILL NUMBER:** Senate Bill 287 (Second Edition)

**SHORT TITLE:** State Hlth Plan \$/Good Health Initiatives.

**SPONSOR(S):** Senator Rand

**SYSTEM OR PROGRAM AFFECTED:** State Health Plan for Teachers and State Employees (Plan).

**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts; premium payments for dependents of active employees and retired employees of State agencies and universities, local public schools and local community colleges; premium payments for coverages selected by eligible former employees; premium payments for coverages selected by firefighters, rescue squad workers, members of the National Guard, and certain authorized local governments.

**BILL SUMMARY:** The Senate Proposed Committee Substitute appropriates funds, authorizes premium rate increases, make benefit and provider related changes, and other various changes to the Plan.

**EFFECTIVE DATE:** Sections 1(b), 1(c), 1(d), 2(c) through (e), 2(g), and 2(h) of this act become effective July 1, 2009. The benefit changes in Section 2(b)(2) become effective July 1, 2010, in Section 2(b)(3) on July 1, 2011, and in Section 2(d) on January 1, 2010. The remainder of this act is effective when it becomes law.

#### ESTIMATED IMPACT ON STATE:

##### Current FY 2008-2009

##### Appropriated Funds

Section 1(a) appropriates the sum of \$250 million from the Savings Reserve Account ("Rainy Day Fund") of the General Fund for the 2008-09 fiscal year. These funds are to be used to finance a shortfall in funds available to pay health care benefits, administrative costs, and adequately fund the Plan's beginning cash balance on July 1, 2009.

##### 2009-2011 Biennium

##### Increased Premium Contributions

##### Appropriated Funds

Sections 1(b), (c), and (d) appropriate the estimated required funds to support increased employer contributions to continue non-contributory benefit coverage for eligible employees and retired employees enrolled in the Plan for the 2009-2011 Biennium. These appropriations correspond to an annual 7.8% premium increase in non-contributory premium rates for the fiscal year beginning July 1, 2009, and an

additional annual premium increase of 7.8% for the fiscal year beginning July 1, 2010. Historically, the Plan has applied a premium increase in October of the first fiscal year of a biennium; however, the premium increases in the bill propose to change that methodology to an annual increase at the beginning of each fiscal year of a biennium. The table reflects the allocation of appropriated funds by fund source:

<b>Additional Employer Contributions Appropriated Funds</b>			
<b>Fund Source</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Biennium</b>
General Fund	\$116,656,658	\$242,460,864	\$359,117,522
Highway Fund	\$5,443,977	\$11,314,840	\$16,758,817
Other Funds	\$24,066,409	\$50,019,968	\$74,086,377
<b>Total</b>	<b>\$146,167,044</b>	<b>\$303,795,672</b>	<b>\$449,962,716</b>

### Employee Funds

Section 2(g) of the proposed bill authorizes an annual 7.8% premium increase in contributory premium rates for the fiscal year beginning July 1, 2009, and an additional annual premium increase of 7.8% for the fiscal year beginning July 1, 2010. The estimated additional premium contributions from this proposed change is listed below:

<b>Additional Employee Contributions For Contributory Dependent Coverage</b>			
<b>Fund Source</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Biennium</b>
Employee Contributions	\$29,924,240	\$62,194,967	\$92,119,207

### Total Increased Premium Contributions From Appropriated and Employee Funds

The table reflects the total additional premium contributions projected to be received by the Plan over the 2009-2011 Biennium as a result of the proposed rate increase of premium increase:

<b>Total Additional Premium Contributions From Appropriated and Employee Funds</b>			
<b>Fund Source</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Biennium</b>
<u>Appropriated</u>			
General Fund	\$116,656,658	\$242,460,864	\$359,117,522
Highway Fund	\$5,443,977	\$11,314,840	\$16,758,817
Other Funds	\$24,066,409	\$50,019,968	\$74,086,377
Sub-total	\$146,167,044	\$303,795,672	\$449,962,716
Employee Contributions	\$29,924,240	\$62,194,967	\$92,119,207
<b>Total</b>	<b>\$176,091,284</b>	<b>\$365,990,639</b>	<b>\$542,081,923</b>

## Financial Savings for the 2009 Biennium

Per the requirements of Senate Rule 42.2, House Rule 36.2, and G.S. 120-114 actuarial analyses have been prepared with respect to the bill's proposed benefit and other changes that are estimated to affect the financial condition of the Plan. A summary of the proposed changes are described below including the estimated actuarial impact of these changes.

Sections 2(c), (d), and (e) of the bill propose various benefit changes to include increased annual deductibles, annual co-insurance maximums, increased office visit co-pays, increased outpatient prescription drug co-pays, a new specialty drug co-pay, utilization of a specialty drug vendor, and plan member incentives for using a to be established extended retail and mail order network of pharmacies for acquiring maintenance medications. Effective January 1, 2010, the proposed bill also eliminates the current in-network routine eye examination benefit offered under the Plan.

A summary of the out-of-pocket changes for medical benefit related services are summarized in the table below:

Medical Benefits Plan Member Co-pays (per visit)	PPO Basic		PPO Standard	
	Current	New Co-pay	Current	New Co-pay
Primary Care	\$25	\$30	\$20	\$25
Specialty Care	\$50	\$70	\$40	\$60
Urgent Care	\$75	\$75	\$50	\$75
Inpatient Hospital	\$200	\$250	\$150	\$200
Annual Deductible				
In-network	\$600	\$800	\$300	\$600
Out-of-network	\$1,200	\$1,600	\$600	\$1,200
Coinsurance Maximum				
In-network	\$2,500	\$3,250	\$1,750	\$2,750
Out-of-network	\$5,000	\$6,500	\$3,500	\$5,500

For acute prescription drugs, the co-pay for brand drugs increases from \$30 per script to \$35 per script, brand drugs with a generic equivalent from \$40 per script to \$10 plus the difference in the Plan's gross allowed cost of the brand drug and the Plan's cost of the generic equivalent drug, and from \$50 per script to \$55 per script for non-preferred brand drugs.

For outpatient maintenance prescription drugs, the bill authorizes an Extended Retail Mail Order network for plan members to purchase maintenance medications, in three month supply quantities with a co-pay incentive, from select retail pharmacies or via mail order through the Plan's pharmacy benefit manager. The requirements to implement this maintenance medication benefit include plan members purchasing maintenance medications at 2.5 times the normal one-month co-pay for a non-maintenance generic, brand, or non-preferred brand drug in a three month supply quantity. Based on increased co-pay amounts authorized in the proposed bill, the following co-pays will apply for a three month supply of a maintenance medication: \$25 for a generic equivalent, \$87.50 for a brand drug, and \$137.50 for a non-preferred drug. A penalty of 50% of the Plan's gross cost for a maintenance drug is paid by a plan member if they elect to purchase drugs outside of the established network or in quantities of less than a three month supply. Plan members are allowed to purchase an original 30-day supply of a maintenance medication plus two refills without penalty before having to comply with the Extended Retail Mail Order network requirements.

The proposed bill authorizes a new co-pay tier for specialty prescription drugs determined to be "biotech" medications or other select costly medications that cost the Plan in excess of \$400 per prescription. The new per script co-pay will be equal to 25% of the Plan's cost for the drug or a maximum of \$100. The current co-pays for specialty drugs range from \$30 to \$50 per script. The bill also authorizes the Plan to contract with a specialty drug vendor through which to channel plan member purchases of specialty drugs on an outpatient basis or in a professional office or institution setting.

Aon Consulting, the consulting actuary for the State Health Plan for Teachers and State Employees, estimates that the implementation of the bill's proposed benefit changes, and implementation of an Extended Retail Mail Order pharmacy network with benefit incentives and penalties for maintenance medications, will yield the following projected savings:

<b>Aon Consulting Projected Financial Savings Benefit and Provider Related Changes</b>			
<b>Category</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Biennium</b>
Medical Benefits	\$118,866,918	\$139,542,217	\$258,409,135
Outpatient Prescription Drugs (acute drugs)	\$22,162,147	\$24,092,234	\$46,254,381
Specialty Drugs	\$3,086,315	\$3,396,887	\$6,483,202
Extended Retail Mail Order (maintenance drugs)	\$36,407,085	\$55,105,625	\$91,512,710
<b>Total</b>	<b>\$180,522,465</b>	<b>\$222,136,963</b>	<b>\$402,659,428</b>

Hartman & Associates, the consulting actuary for the General Assembly's Fiscal Research Division, estimates that estimates that the implementation of the bill's proposed benefit changes, and implementation of an Extended Retail Mail Order pharmacy network with benefit incentives and penalties for maintenance medications, will yield the following projected savings:

<b>Hartman &amp; Associates Projected Financial Savings Benefit and Provider Related Changes</b>			
<b>Category</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Biennium</b>
Medical Benefits	\$118,684,000	\$143,713,000	\$262,397,000
Outpatient Prescription Drugs (acute drugs)	\$24,015,000	\$24,225,000	\$48,240,000
Specialty Drugs	\$3,136,000	\$3,417,000	\$6,553,000
Extended Retail Mail Order (maintenance drugs)	\$40,368,000	\$46,914,000	\$87,282,000
<b>Total</b>	<b>\$186,203,000</b>	<b>\$218,269,000</b>	<b>\$404,472,000</b>

Provided below is a comparison table reflecting the specific results of each consulting actuary by the type of benefit and provider change proposed in the bill.

Projected Financial Savings by Type						
Category	Aon Consulting (Plan)			Hartman & Assoc. (General Assembly)		
	FY 2009-10	FY 2010-11	Biennium	FY 2009-10	FY 2010-11	Biennium
<b>Medical Benefits</b>						
Primary Care Co-pay (Increase)	\$8,518,038	\$9,571,177	\$18,089,215	\$8,116,000	\$9,257,000	\$17,373,000
Specialist Co-pay (Increase)	\$29,077,025	\$32,672,003	\$61,749,028	\$27,125,000	\$31,713,000	\$58,838,000
Urgent Care Co-pay (Increase)	\$739,560	\$830,997	\$1,570,557	\$854,000	\$994,000	\$1,848,000
Inpatient Co-pay (Increase)	\$2,158,037	\$2,424,849	\$4,582,886	\$1,970,000	\$2,247,000	\$4,217,000
Routine Eye Exam (Eliminate Benefit) {Eff. 1/2010}	\$2,158,693	\$7,193,591	\$9,352,284	\$2,540,000	\$7,039,000	\$9,579,000
Deductible and Coinsurance Max (Increase)	\$76,215,565	\$86,849,600	\$163,065,165	\$78,079,000	\$92,463,000	\$170,542,000
Sub-total	\$118,866,918	\$139,542,217	\$258,409,135	\$118,684,000	\$143,713,000	\$262,397,000
<b>Outpatient Prescription Drugs (acute drugs)</b>						
Brand Drug Co-pay (Increase)	\$11,734,884	\$12,173,684	\$23,908,568	\$12,010,000	\$11,741,000	\$23,751,000
Brand Drug with Generic Equivalent (Increase)	\$4,632,720	\$5,644,491	\$10,277,211	\$6,285,000	\$6,536,000	\$12,821,000
Non-Preferred Brand Drug Co-pay (Increase)	\$3,089,092	\$3,204,602	\$6,293,694	\$3,530,000	\$3,671,000	\$7,201,000
Reduce from 34-Day supply to 30-Day Supply	\$2,705,451	\$3,069,457	\$5,774,908	\$2,190,000	\$2,277,000	\$4,467,000
Sub-total	\$22,162,147	\$24,092,234	\$46,254,381	\$24,015,000	\$24,225,000	\$48,240,000
<b>Specialty Drugs</b>						
Establish a Specialty Drug vendor	\$1,682,177	\$1,835,102	\$3,517,279	\$1,665,000	\$1,887,000	\$3,552,000
Specialty Drug Copay (Establish)	\$1,404,138	\$1,561,785	\$2,965,923	\$1,471,000	\$1,530,000	\$3,001,000
Sub-total	\$3,086,315	\$3,396,887	\$6,483,202	\$3,136,000	\$3,417,000	\$6,553,000
<b>Maintenance Drugs</b>						
Extended Retail-Mail Order (Establish)	\$36,407,085	\$55,105,625	\$91,512,710	\$40,368,000	\$46,914,000	\$87,282,000
Grand Total	\$180,522,465	\$222,136,963	\$402,659,428	\$186,203,000	\$218,269,000	\$404,472,000

In addition, included in the table below is a comparison of the cost estimates by component and by each consulting actuary, for their respective savings estimates pertaining to the proposed Extended Retail Mail Order program:

Estimated Plan Savings From Extended Retail Mail Order Rx							
Aon Consulting							
Year	Gross Cost	Mem Copay	Copay Penalty	Net Plan Rx Savings	Admin Savings	Net Rx+Admin Savings	Risk Adjusted Net Rx+Admin <sup>1</sup> Savings
FY 2009-10	\$42,439,959	(\$17,348,361)	\$11,315,163	\$36,406,761	\$4,045,556	\$40,452,317	\$36,407,085
FY 2010-11	\$71,255,486	(\$26,707,734)	\$10,059,812	\$54,607,564	\$6,620,908	\$61,228,472	\$55,105,625
Total	\$113,695,445	(\$44,056,095)	\$21,374,975	\$91,014,325	\$10,666,464	\$101,680,789	\$91,512,710
Hartman & Associates							
Year	Gross Cost	Mem Copay	Copay Penalty	Net Plan Rx Savings	Admin Savings	Net Rx+Admin Savings	Risk Adjusted Net Rx+Admin <sup>2</sup> Savings
FY 2009-10	\$50,940,181	(\$20,128,339)	\$7,839,291	\$38,651,133	\$5,541,208	\$44,192,341	\$40,368,003
FY 2010-11	\$56,506,057	(\$21,166,532)	\$7,979,621	\$43,319,146	\$6,064,053	\$49,383,199	\$46,914,039
Total	\$107,446,238	(\$41,294,871)	\$15,818,912	\$81,970,279	\$11,605,261	\$93,575,540	\$87,282,042
Footnotes:							
<sup>1</sup> Includes 10% risk adjustment factor.							
<sup>2</sup> Net Savings reflects 2 week lag in the first year and 5% risk factor reduction. Values reflect 3% utilization increase in extended pharmacy (retail & mail).							

## **Other Proposed Changes Affecting the Plan**

Section 2(a) of the proposed bill eliminates the PPO Plus benefit alternative for plan members effective July 1, 2009. Employees currently in this plan will be provided the option to enroll in the remaining PPO Basic or PPO Standard plans. The PPO Plus alternative currently offers 90/10 coverage for an additional premium charge paid by the plan member.

Section 2(b) of the proposed bill implements a "Comprehensive Wellness Initiative" to focus on smoking cessation and weight management efforts.

The smoking cessation program will commence July 1, 2010 and will require all non-Medicare plan members to be enrolled in the PPO Basic plan unless the subscribing employee or retired employee can attest that they or any enrolled dependent do not smoke or otherwise use tobacco products. For eligible employees or retired employees who have attested that neither they nor their enrolled dependents use tobacco products, or if their medical provider certifies that a plan member is in a smoking cessation program, they will have the option to enroll in the PPO Standard plan.

Aon Consulting, consulting actuary for the Plan, estimates the smoking cessation program will save approximately \$3.4 million in claims cost for the FY 2010-11. However, the administrative costs to begin implementation are estimated by Aon to offset any first year savings. Aon consulting noted that until further administrative costs and program implementation issues are determined, estimating future savings to the Plan is not possible at this time. Hartman and Associates, consulting actuary for the General Assembly's Fiscal Research Division, does not project any financial impact to the Plan from the proposed smoking cessation program. According to Hartman and Associates, the lack of program parameters and specific administrative costs prevents any reasonable analysis to be conducted.

The weight management program authorized in the proposed bill will begin effective July 1, 2011. Under this program all non-Medicare plan members will be enrolled in the PPO Basic plan unless the subscribing employee or retired employee attests that the ratio of weight and height of the employee or retired employee, or for any of their enrolled dependents, meets certain evidence-based healthy weight clinical guidelines. A plan member who cannot meet the Plan's weight and height ratio guidelines will remain in the PPO Basic plan unless a medical provider certifies the plan member has a medical condition that prevents them from attaining a specified ration of weight and height, or if the member is actively participating in a Plan-approved weight management program.

Neither the Plan's consulting actuary, Aon Consulting, nor the General Assembly's consulting actuary, Hartman and Associates, have estimated any financial impact due to the weight management program. The July 1, 2011 implementation date and yet to be developed administrative costs and program implementation requirements do not allow for any reliable financial projection at this time.

## **Reconciliation of Plan's Financial Requirements**

According to available information from the Executive Administrator of the Plan, the Plan needs an immediate appropriation of \$250 million for the current 2008-2009 fiscal year to operate through June 30, 2009, and to provide for an adequate beginning cash balance to begin operations for the new fiscal year commencing July 1, 2009. In addition, for the new biennium beginning July 1, 2009 the Plan is estimated to require over \$1.2 billion in additional financial support to remain solvent and maintain minimum claim stabilization reserves for the 2009-2011 biennium. If the Plan were to maintain current benefit levels and

assuming a 9% per capita claims trend, the Plan would require an estimated 30.8% premium increase for the biennium (effective October 1, 2009).

The proposed bill addresses this projected shortfall by authorizing the following changes:

1. Proposing a 7.8% annual premium increase on July 1 of each fiscal year of the biennium for non-contributory and contributory premium rates; this change moves the historical date to increase premium rates from October 1 in the first year of a biennium, and moves to an annual premium increase;
2. Eliminating the current PPO Plus option benefit alternative;
3. Increase plan member out-of-pocket requirements for certain medical and prescription drug benefits; and
4. Establishing an Extended Retail Mail Order program for administering benefits for outpatient prescription drug benefits involving maintenance medications.

A financial summary table provided below provides a projected reconciliation of the financial related changes authorized under the bill assuming the Plan's consulting actuary's estimate of projected financial need for the 2009-2011 biennium, their projected financial savings due to benefit and other provider related changes, and their estimate of additional premium contributions:

**State Health Plan  
Summary of Financial Changes  
Senate Proposed Committee Substitute to Senate Bill 287  
(\$ Million)**

	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>Biennium</b>
1) Projected Financial Support Required Before Any Adjustments	\$528.1	\$704.2	\$1,232.3
2) Adjust for Proposed FY 2008-09 Special Appropriation of \$250M	(\$107.1)	(\$142.9)	(\$250.0)
3) Adjust for Elimination of PPO Plus (Net Adjustment)	(\$14.4)	(\$24.4)	(\$38.8)
4) Adjusted Financial Support Required for the 2009-11 Biennium	<u>\$406.6</u>	<u>\$536.9</u>	<u>\$943.5</u>
5) Benefit Reductions Effective July 1, 2009			
Medical			
Primary Care Co-pay (Increase)	(\$8.5)	(\$9.6)	(\$18.1)
Specialist Co-pay (Increase)	(\$29.1)	(\$32.7)	(\$61.8)
Urgent Care Co-pay (Increase)	(\$0.7)	(\$0.8)	(\$1.5)
Inpatient Co-pay (Increase)	(\$2.2)	(\$2.4)	(\$4.6)
Deductible and Coinsurance Maximum (Increase)	(\$76.2)	(\$86.9)	(\$163.1)
Routine Eye Exam (Eliminate Benefit) { Effective January 1, 2010 }	(\$2.2)	(\$7.2)	(\$9.4)
Sub-total	<u>(\$118.9)</u>	<u>(\$139.6)</u>	<u>(\$258.5)</u>
Outpatient Acute and Specialty Prescription Drugs			
Brand Drug Co-pay (Increase)	(\$11.8)	(\$12.2)	(\$24.0)
Brand Drug with Generic Equivalent (Increase)	(\$4.6)	(\$5.6)	(\$10.2)
Non-Preferred Brand Drug Co-pay (Increase)	(\$3.1)	(\$3.2)	(\$6.3)
Reduce from 34-Day supply to 30-Day Supply per script	(\$2.7)	(\$3.1)	(\$5.8)
Specialty Drug Copay (Establish)	(\$1.4)	(\$1.6)	(\$3.0)
Establish a Specialty Drug vendor	(\$1.7)	(\$1.8)	(\$3.5)
Sub-total	<u>(\$25.3)</u>	<u>(\$27.5)</u>	<u>(\$52.8)</u>
Total -- Benefit Reductions	<u>(\$144.2)</u>	<u>(\$167.1)</u>	<u>(\$311.3)</u>
6) Extended Retail Mail Order Network (Outpatient Maintenance Drugs)	(\$36.4)	(\$55.1)	(\$91.5)
7) Appropriations by the General Assembly			
Premium increase for Employing Agencies (July 1, 2009 = 7.8%, July 1, 2010 = 7.8%)			
General Fund	(\$116.7)	(\$242.5)	(\$359.2)
Highway Fund	(\$5.4)	(\$11.3)	(\$16.7)
Other Employer Funds	(\$24.1)	(\$50.0)	(\$74.1)
Total Employer Funds	<u>(\$146.2)</u>	<u>(\$303.8)</u>	<u>(\$450.0)</u>
8) Premium increases for Dependent Coverage (July 1, 2009 = 7.8%, July 1, 2010 = 7.8%) Paid by Employees and Retirees for Enrolled Spouses and Dependent Children			
Total Employee Funds	<u>(\$29.9)</u>	<u>(\$62.2)</u>	<u>(\$92.1)</u>
9) Plan's Other Operating Adjustments	(\$0.3)	\$2.5	\$2.2
10) Balance	<u>\$49.6</u>	<u>(\$48.8)</u>	<u>\$0.8</u>

Note: The \$800,000 balance remaining at the end of the biennium is a product of rounding error and a difference in projected ending balances between financial projections estimating total financial requirements and final requirements after the proposed premium increases, benefit changes, and other program changes. This difference is not expected to have an adverse effect on the Plan's finances.



## **ASSUMPTIONS AND METHODOLOGY:**

The actuarial analyses used by each respective consulting actuary are on file with the Fiscal Research Division. Copies of each respective consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

### **Summary Information and Data about the Plan**

The Plan administers health benefit coverage for active employees from employing units of State agencies and departments, universities, local public schools, and local community colleges. Eligible retired employees of authorized employing units may also access health benefit coverage under the Plan. Eligible dependents of active and retired employees are authorized to participate in the Plan provided they meet certain requirements. Employees and retired employees of selected local governments may also participate in the Plan under certain conditions. Members of fire, rescue squads, and the National Guard may also obtain coverage under the Plan provided they meet certain eligibility criteria.

As of July 1, 2008, the State finances the Plan on a self-funded basis and administers benefit coverage under a Preferred Provider Option (PPO) arrangement. The Plan's receipts are derived through premium contributions, investment earnings and other receipts. Premiums for health benefit coverage are paid by (1) employing agencies for active employees, (2) the Retiree Health Benefit Fund for retired employees, and (3) employees and retirees who elect dependent coverage. Total requirements for the Plan are estimated to be \$2.6 billion for FY 2008-09. The Plan's PPO benefit design includes three alternative benefit levels offered to plan members. The three alternative benefit levels include the following:

- 1) The "Basic" 70/30 plan that offers higher out-of pocket requirements in return for lower fully contributory dependent premiums;
- 2) The "Standard" 80/20 plan; and
- 3) The "Plus" 90/10 plan with enhanced benefits via lower out-of pocket requirements as compared to the other PPO plan alternatives offered.

Employees and retired employees electing coverage under the Plus alternative must make a partially contributory premium contribution for their own coverage. The Basic and Standard plans offer coverage to employees and retired employees on a noncontributory basis. Coverage for dependents under all plans is offered on a fully contributory basis.

### **Financial Condition**

**Financial Projection (Revised) for FY 2008-09** -- For the fiscal year beginning July 1, 2008, the Plan began its operations with a beginning cash balance of \$139.8 million. Receipts for the year are projected to be \$2.3 billion from premium collections, \$53.9 million from Medicare Part D subsidies, and \$2.7 million from investment earnings, for a total of slightly over \$2.3 billion in receipt income for the year. Projected disbursements from the Plan are expected to be \$2.4 billion in claim-payment expenses and \$168.7 million in administration and claims-processing expenses for projected total expenses of nearly \$2.6 billion for FY 2008-09. The Plan's net operating loss is projected to be approximately \$264.4 million for the fiscal year, assuming a 9% annual claims growth trend.

Projected operating losses are expected to deplete the Plan's cash balance of \$139.8 million and leave it without sufficient operating resources to continue operations for the fiscal year. It is currently estimated by the Plan's Executive Administrator that the Plan will not be able to pay claims on a timely basis by March 31, 2009.

Consequently, the reforecast of Plan finances now indicates that the Plan will require up to \$300 million in additional resources to operate for the balance of the 2008-09 fiscal year. This amount represents the estimated funds necessary to pay claims and administrative expenses through June 30, 2009, plus funding a minimum stabilization reserve equal to 7.5% of projected claims, and assuming a future premium rate increase effective October 1, 2009.

### **Other Information**

Additional assumptions include Medicare benefit "carve-outs," cost containment strategies including prior approval for certain medical services, utilization of the "Blue Options" provider network, case and disease management for selected medical conditions, mental health case management, coordination of benefits with other payers, a prescription drug benefit manager with manufacturer rebates from formularies, and fraud detection, and other authorized actions by the Executive Administrator and Board of Trustees to manage the Plan to maintain and improve the Plan's operation and financial condition where possible. Claim cost trends are expected to increase at a rate of 9% annually according to the Plan's consulting actuary. Investment earnings are based upon a 4.5% return on available cash balances.

**Enrollment Data as of December 31, 2008**

<b>I. No. of Participants</b>	<b>Basic</b>	<b>Standard</b>	<b>Plus</b>	<b>Total</b>	<b>Percent of Total</b>
<u>Actives</u>					
Employees	11,623	271,243	47,687	330,553	49.6%
Dependents	20,454	115,875	28,156	164,485	24.7%
Sub-total	32,077	387,118	75,843	495,038	74.2%
<u>Retired</u>					
Employees	1,726	127,081	17,967	146,774	22.0%
Dependents	1,117	14,935	3,476	19,528	2.9%
Sub-total	2,843	142,016	21,443	166,302	24.9%
Former Employees with					
<u>Continuation Coverage</u>					
Employees	60	1,349	344	1,753	0.3%
Dependents	61	501	182	744	0.1%
Sub-total	121	1,850	526	2,497	0.4%
Firefighters, Rescue Squad &					
<u>National Guard</u>					
Employees	-	3	2	5	0.0%
Dependents	-	3	-	3	0.0%
Sub-total	-	6	2	8	0.0%
Local Governments					
Employees	72	1,577	319	1,968	0.3%
Dependents	141	637	218	996	0.1%
Sub-total	213	2,214	537	2,964	0.4%
Total					
Employees	13,481	401,253	66,319	481,053	72.1%
Dependents	21,773	131,951	32,032	185,756	27.9%
<b>Grand Total</b>	<b>35,254</b>	<b>533,204</b>	<b>98,351</b>	<b>666,809</b>	<b>100%</b>
<b>Percent of Total</b>	<b>5.3%</b>	<b>80.0%</b>	<b>14.7%</b>	<b>100.0%</b>	

<b>II. Enrollment by Contract</b>	<b>Basic</b>	<b>Standard</b>	<b>Plus</b>	<b>Total</b>
Employee Only	2,684	328,635	49,246	380,565
Employee Child(ren)	4,958	36,903	8,589	50,450
Employee Spouse	2,274	18,145	4,469	24,888
Employee Family	3,565	17,570	4,015	25,150
<b>Total</b>	<b>13,481</b>	<b>401,253</b>	<b>66,319</b>	<b>481,053</b>
<b>Percent Enrollment by Contract</b>				
Employee Only	19.9%	81.9%	74.3%	79.1%
Employee Child(ren)	36.8%	9.2%	13.0%	10.5%
Employee Spouse	16.9%	4.5%	6.7%	5.2%
Employee Family	26.4%	4.4%	6.1%	5.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Enrollment Data Continued**

<b>III. Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Plus</b>	<b>Total</b>
Female	18,837	334,917	61,752	415,506
Male	16,417	198,287	36,599	251,303
<b>Total</b>	<b>35,254</b>	<b>533,204</b>	<b>98,351</b>	<b>666,809</b>

<b>Percent Enrollment by Sex</b>	<b>Basic</b>	<b>Standard</b>	<b>Plus</b>	<b>Total</b>
Female	53.4%	62.8%	62.8%	62.3%
Male	46.6%	37.2%	37.2%	37.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>IV. Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Plus</b>	<b>Total</b>
29 & Under	17,390	136,277	27,211	180,878
30 to 44	8,125	107,375	17,315	132,815
45 to 54	5,164	94,548	18,277	117,989
55 to 64	3,195	102,901	23,452	129,548
65 & Over	1,380	92,103	12,096	105,579
<b>Total</b>	<b>35,254</b>	<b>533,204</b>	<b>98,351</b>	<b>666,809</b>

<b>Percent Enrollment by Age</b>	<b>Basic</b>	<b>Standard</b>	<b>Plus</b>	<b>Total</b>
29 & Under	49.3%	25.6%	27.7%	27.1%
30 to 44	23.0%	20.1%	17.6%	19.9%
45 to 54	14.6%	17.7%	18.6%	17.7%
55 to 64	9.1%	19.3%	23.8%	19.4%
65 & Over	3.9%	17.3%	12.3%	15.8%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<b>V. Retiree Enrollment by Category</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	49,534	12,080	61,614
Medicare Eligible	97,240	7,448	104,688
<b>Total</b>	<b>146,774</b>	<b>19,528</b>	<b>166,302</b>

<b>Percent by Category (Retiree)</b>	<b>Employee</b>	<b>Dependents</b>	<b>Total</b>
Non-Medicare Eligible	33.7%	61.9%	37.0%
Medicare Eligible	66.3%	38.1%	63.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**SOURCES OF DATA:**

Aon Consulting, North Carolina State Health Plan, Financial Projections – October 2008, Total For All Plans – 9% Trend, October 10, 2008.

Aon Consulting, North Carolina State Health Plan, Financial Projections – October 2008, Total For All Plans – 9% Trend, July 2009 & 2010 Rate Increases, \$250 Million Grant, No Plus Option – July 2009, Benefit Option with Extended Refill, March 9, 2009.

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-Actuarial Note, Hartman & Associates, "Senate Bill 287 PCS551166-LN-2: An Act to Appropriate Funds for the State Health Plan and to Make Other Changes to the State Health Plan", March 9, 2009, original of which is on file in the General Assembly's Fiscal Research Division.

-Actuarial Note, Aon Consulting, "Senate Bill 287 Proposed Committee Substitute S287-PCS55166-LN-2, State Health Plan \$/Good Health Initiatives", March, 9 2009, original of which is on file with the Comprehensive Major Medical Plan for Teachers and State Employees and the General Assembly's Fiscal Research Division.

**TECHNICAL CONSIDERATIONS:** None

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**DATE:** March 10, 2009



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